



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

SECOND MEETING OF 2019

MAY 3, 2019

Monetary Policy Committee reduces the Policy rate to 13.5 percent

The Monetary Policy Committee (MPC), at its 2nd meeting for 2019 held on 2nd and 3rd May 2019, decided to reduce the Policy Rate by 100 basis points from 14.5 percent to 13.5 percent. The Committee, however, maintained the Lombard rate at 0.4 percentage points above the Policy Rate, the Liquidity Reserve Requirement (LRR) on local currency deposits at 5 percent and the LRR on foreign currency deposits at 3.75 percent. In arriving at this decision, the Committee observed that the positive macroeconomic outlook in 2019 envisaged during the first MPC of 2019 remains firm.

Inflation is projected to slow-down further in 2019

Headline inflation slowed down to an average of 8.7 percent during the first quarter of 2019 from 9.9 percent recorded during the previous quarter. This was largely on account of a decline in non-food inflation which dropped to 5.8 percent from 8.9 percent in the last quarter of 2018. In March 2019, non-food inflation was recorded at 5 percent, similar to what was last achieved in March 1991, 28 years ago. This drop arises from consistent application of monetary policy and continued stability in the exchange rate. At 8.7 percent, average inflation rate in the first quarter of 2019, was 0.5 percentage points lower than the forecast. Food inflation in the first quarter of 2019 averaged 11.9 percent from 10.9 percent in the last quarter of 2018. In March 2019, food inflation was recorded at 14.4 percent. The March 2019 uptick in inflation is considered temporary arising from the uncertainty surrounding the extent of crop damage due to cyclone Idai. With the release of the second round national crop estimates, going forward, food inflation is expected to slow down as the country has been estimated to register a maize surplus of about 233,035 metric tonnes. Similarly, non-food inflation will continue to benefit from the relatively tight monetary policy, exchange rate stability and favourable international crude oil prices. Based on these developments, baseline inflation projection has further shifted downwards. Inflation is now projected to average 8.0 percent in 2019, 0.5 percentage points lower than projected during the first MPC of 2019.

Global economic developments

The global growth is now projected at 3.3 percent in 2019, lower than an earlier projection of 3.6 percent following geopolitical developments and tightening of global financial conditions. Global oil prices are expected to remain broadly stable, trading at around US\$70 dollars per barrel in 2019.

The domestic economy is projected to recover in 2019

Gross Domestic Product growth for 2019 is estimated at 5.0 percent, an improvement from the growth rate of 4.0 percent in 2018. The rebound in growth is expected to be supported by the agriculture sector, improved power supply, continued macroeconomic stability as well as the easing of monetary policy. The macroeconomic stability will be supported by fiscal consolidation.

Exchange rate stability to continue

The exchange rate remained broadly stable and traded at K737.6517 per US dollar at the end of March 2019 from K736.4394 per US dollar at the end of December 2018. Official reserves stood at US\$799.48 million (3.8 months of imports), 0.2 months higher than US\$752.4 million (3.6 months of imports) reported during the first MPC. Total foreign exchange reserves, including those held by the private sector, stood at US\$1.1 billion (5.3 months of imports). The foreign exchange reserves position is expected to improve further following the commencement of the agriculture marketing season. It is therefore

expected that the current stability in the exchange rate will continue for the rest of 2019.

Monetary policy eased

The MPC noted that the projected improvement in macroeconomic outlook for 2019 remains firm, with inflation projected on a downward trend. Notably, there has been significant decline in non-food inflation, a trend which is expected to be sustained in the medium term. The MPC therefore resolved to reduce the Policy rate by 1.0 percentage points from 14.5 percent to 13.5 percent. The Lombard rate has been maintained at 0.4 percentage points above the policy rate. The Liquidity Reserve Ratios on local currency and foreign currency deposits have been maintained at 5.0 percent and 3.75 percent, respectively. At this level, the policy stance remains adequately tight to guide inflation towards the medium-term objective of 5 percent. Monetary policy decisions will continue to be guided by inflation forecasts and outcomes as well as progress in fiscal consolidation measures.

Reference rate for commercial banks base lending rates

Further to the January 2019 MPC decision whereby the Lombard rate was designated as the base lending rate for commercial banks, the Committee refined the determination of the base rate by introducing other rates. The base lending rate for Commercial Banks will now be a weighted average of the Lombard rate, the Interbank rate, the 91-day

Treasury bill rate, and the Savings rate. Further details on its calculation will be communicated in due course.

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CHAIRMAN, MPC.

Information Note: The next scheduled date of the MPC meeting is on 30th-31st July 2019. The decision will be announced on 31st July 2019 and the announcement will be accompanied by a news conference.